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RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 0660
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SUBJECT: KAZAKHSTAN: MINISTER OF FINANCE PROMISES ANTI-MONEY
LAUNDERING LAW IN FIRST QUARTER OF 2009

REF: (A) ASTANA 68
(B) 08 ASTANA 2226

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¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: On January 23, the Ambassador met with Minister of Finance Bolat Zhamishev and Deputy Customs Committee Chairman Sofia Aisagalieva to discuss Kazakhstan's response to the global financial crisis, pending legislation on Anti-Money Laundering/Counter-Terrorism Financing (AML/CTF), and customs duties and value-added taxes assessed on U.S. technical assistance delivered under the Cooperative Threat Reduction (CTR) program. Minister Zhamishev said the AML/CTF legislation was passed out of committee in the Mazhilis -- the lower house of parliament -- on January 21 and he expects the law to be enacted during the first quarter of 2009. In a pleasant surprise, Aisagalieva said the Customs Committee is willing to allow CTR assistance to enter Kazakhstan duty-free, even though the new CTR agreement has not yet been ratified by parliament. END SUMMARY.

PLEASANT FIRST IMPRESSION

¶3. (SBU) Minister Zhamishev was professional, polite, and extremely well-prepared for the meeting. A pleasant, bald 51-year old, Zhamishev makes a favorable first impression with his smart appearance, attention to detail, and respect for others. Aware of the Ambassador's extensive service throughout the region, Zhamishev joked, "I know that you have worked in Afghanistan, Pakistan, Tajikistan, Uzbekistan, and now, I am pleased to welcome you to Kazakhstan. You have worked in nearly all of the 'stans.' Even though our countries share the same suffix, I'm sure you are well aware that we are all very different." Zhamishev and Aisagalieva both congratulated the Ambassador on the inauguration of President Obama. Zhamishev said he was particularly impressed by the fact that more than two million people came to Washington "without official encouragement" to attend the ceremony.

ANTI-MONEY LAUNDERING LEGISLATION MOVES FORWARD

¶4. (SBU) Zhamishev announced that a parliamentary working group discussed the draft Law on Anti-Money Laundering/Counter-Terrorism Finance (AML/CTF) this week and resolved all outstanding issues. He said the legislation was passed out of committee in the lower house of parliament (Mazhilis) on January 21 and will be considered at a plenary session of the Mazhilis in the near future. He expects passage of the law "in the first quarter" of 2009.

FINANCIAL MONITORING COMMITTEE ESTABLISHED

¶5. (SBU) According to Zhamishev, his Ministry's recently-established Financial Monitoring Committee does not currently review or monitor financial data, since the relevant AML/CTF legislation has not yet been passed and no information is authorized to flow to the Committee. Once the new law is passed, those entities being monitored will have up to 12 months to update information systems, processes, and reporting to ensure full compliance with the law. During that one-year period, the Committee will conduct systems testing and staff training to prepare for its new monitoring role. Zhamishev said that all necessary reports and documents for the Committee's review will be provided in electronic form, not hard copy.

CUSTOMS COMMITTEE PROMISES ACTION ON CTR ASSISTANCE

¶6. (SBU) Aisagalieva said that in the view of the Customs Committee, assistance imported into Kazakhstan under the Cooperative Threat Reduction (CTR) agreement is subject to value-added tax and customs duties because parliament has not yet ratified the CTR agreement and it is therefore not in force. (COMMENT: We do not accept this view. In fact, following President Nazarabayev's October 15 decision to sign-off on the CTR agreement's ratification, the MFA sent us an aide memoire confirming that the Kazakhstani

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government recognizes the clause in the agreement under which it is to be provisionally applied from its date of signature -- i.e., from December 13, 2007. END COMMENT.) Aisagalieva did acknowledge, however, the government's decision to extend the agreement for an additional seven years and said the Customs Committee is working to expedite the parliamentary ratification process. As a gesture of good will, she promised that the Customs Committee will exempt CTR technical assistance, provided it receives relevant supporting documentation from the Ministry of Economy and Budget Planning certifying the purpose and beneficiaries of the items.

FINANCIAL CRISIS IMPACT ON KAZAKHSTAN

¶7. (SBU) Zhamishev said that, as a small, open, market economy, Kazakhstan has not been immune from the effects of the global financial crisis. He specifically said that the financial/banking sector has come under pressure, particularly because one-half of its assets are debts to foreign creditors. The non-extractive industries have been hardest hit, particularly the construction industry. The Minister noted that the rapid decline in the price of oil came as a "second wave" of the crisis and will have a significant effect on the 2009 budget. He expects the government to reduce infrastructure investments in 2009 -- including school and road construction -- but he doubted this would have a serious, negative impact on the economy. He emphasized that the government will "absolutely" cover all outstanding debt obligations and fund all essential social programs.

INTEREST IN IMPROVING INVESTMENT CLIMATE

¶8. (SBU) Zhamishev noted that Kazakhstan's new tax code lowers the corporate income tax, although it increases taxes on oil and gas companies. Nevertheless, Zhamishev asserted that the overall tax rate on the energy sector is lower than in many oil-producing countries and he expressed confidence that Kazakhstan will remain an attractive investment destination for major oil companies. He said the government is committed to improving the investment climate in Kazakhstan and noted, for example, that the Ministry works very closely with the World Bank to reduce administrative barriers to

doing business and to implement international standards for trade and investment.

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